

The Treasury Note



A monthly newsletter
of municipal finance

June 1, 1996

Governor's May Revision Supports California's Recovery

California's financial picture continues to improve at a pace which will create more than 300,000 new jobs in both 1996 and 1997. Employment growth is strong in such high-wage industries as electronics, software, motion pictures and multimedia. Revenues are higher than budgeted. General Fund revenues are forecast to be more than \$1.1 billion and \$1.5 billion above the January forecast for the current year and for 1996-97, respectively. The most significant factor to the revenue growth is the withholding for personal income tax, a result of job growth in high-wage industries.

With the increased revenue, the State's cash flow has improved. The projected unused internal borrowable resources on June 30, 1996 is approximately \$4 billion. As a result, the size of the 1996-97 Revenue Anticipation Note has been reduced to \$3 billion from \$3.2 billion.

Finally, the Special Fund for Economic Uncertainties for 1996-97 has been increased to \$516 million, more than 1% of the total General Fund budget. Allocation to the reserve demonstrates commitment to continued improvement in the State's fiscal health.

First Commercial Paper Sale a Success

On May 1, 1996, the State of California sold \$70 million in tax-exempt commercial paper—its first general obligation (G.O.) commercial paper issue ever—to provide interim funding for its G.O. bond program. The sale was received well by the investment community. The Remarketing Agents were Goldman Sachs & Co. (lead underwriter), Lehman Brothers, and Morgan Stanley & Co., Inc. Their share of the \$70 million issuance was 60 percent to Goldman Sachs & Co. and 20 percent

each to Lehman Brothers and Morgan Stanley & Co., Inc. Financing participants included Orrick, Herrington & Sutcliffe and Quateman & Zidell LLP as co-bond counsel and Public Resources Advisory Group as financial advisor.

The State allowed the three competing dealers to develop their own marketing strategies, enabling the dealers to take advantage of the unique characteristics of their own clientele to provide the best price for the State. The State Treasurer's Office also will monitor the performance of the three dealers to ensure the State is receiving competitive yields. The State's G.O. commercial paper is backed by a \$1 billion bank line of credit with Morgan Guaranty Trust Co. of New York.

It is anticipated that the State Treasurer's Office will issue long-term debt in the form of G.O. bonds to retire the outstanding commercial paper two to three times a year. The first sale is planned for September/October 1996.

RESULTS OF RECENT BOND SALES

On April 30, 1996, the State Public Works Board (SPWB) issued \$455.4 million of lease revenue bonds on behalf of the **Department of Corrections for the California Substance Abuse Treatment Facility and State Prison at Corcoran**. The State garnered a good price for the bonds, due in part to the Investor Relations Program which the State Treasurer created. The program, designed to improve communication with investors, has involved holding meetings with large investors in California bonds and continuing to disclose pertinent information to investors through a monthly newsletter, electronic and other telecommunication vehicles. The Investor Relations Program has contributed to an increase in investor interest in purchasing State of California bonds and notes.

On May 7, 1996, the **California Department of Water Resources** sold \$160 million in revenue

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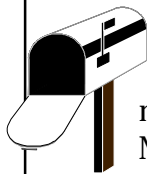
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"Results of Recent Bond Sales" continued

bonds to provide financing for the Central Valley Project Water System. The proceeds will be used to retire water revenue commercial paper notes, and for construction and improvements to the 647-mile aqueduct system. Five syndicates, the highest number of bidders in recent years, competed in the sale with the State Treasurer's Office acting as agent for sale and opening the bids.

After the sale, the Treasurer commented, "This competitive sale shows California's strength among Wall Street firms, and will help lower debt service costs to taxpayers." J.P. Morgan Securities, Inc. was the successful bidder with a True Interest Cost (TIC) of 6.03 percent.

As part of the State's ongoing commitment to bolster higher education, over \$161 million of refunding bonds were issued in April: \$138 million for the **California State University** housing system and \$23 million for the **San Jose State University** student union. The TICs for the competitive sales were 5.69 and 5.71 percent, respectively. On May 22, an additional \$22 million of revenue bonds were sold for the **California State University, Sacramento** student union. On the same day, the Treasurer also issued approximately \$1 billion of refunding bonds for **PG & E** under the **California Pollution Control Financing Authority**. This refunding saved **PG & E** \$57 million of debt service in today's money.



The Treasury Note Mailing List

Since interest checks are mailed every six months, you may be receiving The Treasury Note twice a year. If you would like to be on the mailing list to receive The Treasury Note regularly, please send your name and address to the Investor Relations Program at the address on the previous page.

Ask the State Treasurer

Q . The State of California bonds I recently purchased are in Book-Entry Only (BEO) form and held in my account with my broker. How and when is my account credited for interest?

A . All State of California bonds which have been sold in BEO form are held at the Depository Trust Company (DTC) in New York. DTC is a nonprofit service company owned by members of the financial industry. It is a national clearing house for the settlement of trades in municipal securities.

Our office wire transfers BEO bond interest to DTC on the first business day of each month. DTC, in turn, credits each participating member's account on the same business day the interest is due. Please check with your broker to determine the exact date that your account is credited with your interest.

Q . Can I have my BEO bond registered in my name with DTC?

A . No. According to DTC, BEO bonds must be registered in the names of participating members.

Notice of Defeasance

The following bonds have been partially defeased. These bonds will be redeemed on August 1, 1996. This listing reflects defeasance officially announced as of May 31, 1996.

California Housing Finance Agency Home Mortgage Revenue Bonds, 1986 Series A (Partial)

\$92,870,000, due February & August 1997-2000, August 1, 2006, and August 1, 2016.

If there are any questions regarding this defeasance, please call (916) 653-3451.

Bond Sales Calendar*

If you are interested in purchasing any of these bonds, please contact your broker about two weeks before the sale date.

BOND SALES	AMOUNT in millions	SALE DATE
1996-97 Revenue Anticipation Notes (RANs)	\$3 billion or less	Summer 1996
State Public Works Board, California Museum of Science and Industry, Lease Purchase Revenue Bonds	\$32	Summer or Fall 1996

*Subject to change